



Op-Ed: Reflections on "The China Threat"

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It seems that not a day passes without dire warnings about China's rising economic and military power. China, we are told, is a multi-front menace. Due to "rising nationalism" and an insatiable demand for energy, China covets increasingly large areas of the South China Sea, and ominously seeks to establish a robust forward presence as far as the Indian Ocean; the Chinese state and military are engaged in a long-term strategic effort to steal intellectual property and other secret information; Chinese State-owned enterprises (SOEs) plan to corner the market on valuable natural resources or purchase "iconic" Western companies (such as the resort chain Club Med and Smithfield International, which sells pork products). As Heriberto Araujo and Juan Pablo Cardenal recently wrote, China "seems to be steadily taking it over commercially," referring to the world, no less.¹ They contend that "by buying companies, exploiting natural resources, building infrastructure and giving loans all over the world, China is pursuing a soft but unstoppable form of economic domination." Then, of course, there is the familiar litany of complaints about the human rights violations of the People's Republic of China (PRC); toys made by prison labor and sold to Kmart, and environmental damage caused by state-driven industrialization.

To those of us who have studied Asia for some time—in my case since 1985—much of this has a *deja vu* quality to it. In the 1980s and early-1990s, it was Japan, not China, that provoked hyperbole. Michael Crichton's best-seller, *The Rising Sun*, tapped into widespread fears of Japan as a samurai-like economic warrior/competitor; Ezra Vogel's *Japan as #1: Lessons for America* (1981), explored the sources of Japanese economic prowess against the background of 1970s American "malaise," or to use the fashionable term, "decline." Paul Kennedy, in *The Rise and Fall of the Great Powers* (1989), predicted Japan's ascendance to the top spot in the international

order. Unions and their politicians scolded Japan for its unfair, state-guided trade practices and fretted that “Japan Inc.”—a seamless meld of state, firm, and family—was too potent a rival to defeat. Japanese cars were smashed in publicity stunts. Leaving aside the not-so-covert racism here²—fewer concerns were voiced about the phoenix-like rise of a defeated Nazi Germany—it is evident that, at least in part, Americans: (1) have a tendency to seek the dreaded “Other”—a powerful, dangerous and hard-to-fathom threat—in Asia (in the 19th and 20th centuries, this was referred to as the “Yellow Peril”); and, (2) contrast this rising Asian threat to a perception of American decline.

None of this is to suggest that the Chinese state *does not* play an important role in its economy, that its military has not received increasingly larger budgets, that China has not made a strong play for oil, or that its foreign policy is not radically mercantilist (all these were noted about England in the years of empire and, frankly, can apply to the contemporary United States). The main question is: What do we make of these facts? Our minds, perhaps naturally, want to see them as part of larger cohesive pattern, a “template,” that can be summed up in a sound bite, or a simplistic, adjective-driven “analysis”: “authoritarian,” “rising,” “nationalist,” and the like. But when small and large fortunes can be spent and made by driving this sound bite home—think of the budgetary resources devoted to gathering intelligence, congressional studies and committees, Washington think tank papers, and weapons development—it behooves us to take a critical look at this template. If disassembled, key components of China’s “advantages”—its “strategic” state, mercantilist SOEs, “nationalism,” and aggressive pursuit of resources—are less impressive; China is far weaker, vulnerable, and deeply troubled than one would think by reading the usual media fare about it. China, I suggest, will be “muddling through” for quite some time. Let’s look at these one by one.

The State.

In contrast to its popular image as strategic-thinking monolithic Leviathan, full-time scholars of Chinese politics tend to emphasize its *internal fragmentation*. Like other states, Chinese politics, and the People’s Liberation Army (PLA) as well, China is frustratingly pluralistic and ruthlessly competitive. With over 82 million members in the Communist Party, how could it not be so? While space does not allow me to elaborate upon all of the internal cleavages, I can mention a few. At the elite level, Cheng Li of the Brookings Institution has written extensively about fierce policy debates between two “factions”: elitist, coastal-oriented “princelings” (those whose parents or in-laws were high-level officials in the party or military), and those who rose through the Communist Youth

League (the “CYL faction,” who tend to be more “populist” and “regional” in orientation).³ These politicians have different orientations toward global trade issues, foreign policy, political liberalization, and reducing inequality (currently at worrisome levels⁴). Family rivalries are a source of much political intrigue; Chinese citizens have made a sport out of tracking family connections in politics, business, and elsewhere. Victor Shih, a political scientist, has conducted an excellent faction-based analysis of Chinese finance and banking.⁵ Regional interests are also represented. If you are the governor of Fujian Province, opposite Taiwan, you are unlikely to jump on a “nationalist” bandwagon because Taiwanese have invested billions into your province and employ many people; if you are an official in the Southwest, trade with the countries in your regional “neighborhood” can trump an aggressive stance on offshore islands disputes. Hainan Province, dependent on tourism, has encouraged investment in 5-star hotels, but this economy would vaporize in a flash in case of a conflict. So, while all officials might pay lip service to an “aggressive” national position in speeches, they are more likely to be cautious in practice. The take away here is that in every policy arena, it is critical to understand who the players are, and assume that many debates take place behind the scenes; there is no “master plan.”

State-owned Enterprises.

Much like the Japanese *keiretsu* (family-controlled industrial and financial combines) that once instilled fear and awe in the United States, Chinese SOEs recently have assumed bogeyman-like features in the American imagination. The perception is that due to privileged access to state resources and close family ties to state leaders, Chinese SOEs do not compete “fairly,” and are held responsible for American job losses and depressed wages. Missing from this perspective is comparative analysis: is the Chinese state so much more “interventionist” than its Western counterparts? The U.S. Government reaches into every nook and cranny of the domestic and global economy: the “Farm Bill” pays farmers even if they do not grow crops; war spending enriched the Washington, DC, suburbs; the tax code allows corporations to squirrel away money in tax-free offshore accounts; industries are protected because their political representatives have clout. With variation, this is true in Russia, kingdoms in the Middle East, Israel (which invests more in research and development (R&D) than any country in the world), and most of continental Europe. In European history, wars were often funded by wealthy merchants (“invested” might be the better word) who partook of the booty of conquest.⁶ China’s economy is therefore different in degree, not kind.⁷ Equally important, as a share of the Chinese industrial sector, state-owned industries are a tiny minority, representing only 3 percent of enterprises (however, they still control 44 percent of total assets⁸—something the current leaders will likely change). Finally,

many SOEs are well-known for inefficiency, especially in finance and banking, which historically are the features most critical in the rise of truly global powers.⁹ Corruption, cronyism, and nepotism are not unusual; hundreds of family members of high officials have parked their sons and daughters in SOEs. In sum, Chinese firms do present a challenge—this is hardly unexpected. Still, considered from a comparative and “insider” perspective, Chinese SOEs are not the polar opposite of “free market” Western firms. Moreover, SOEs can be as inefficient as the state itself.

Rising Nationalism.

This concept crops up in most every media report about China’s rise and the threat it poses to Asia and the West. The argument tends to have two versions: 1) fueled by rising nationalist sentiment, the “Chinese will do “x” (dominate the South China Sea, attack Taiwan, and challenge Japan or the United States); 2) even when it seeks moderation, the government will be pushed into confrontation by Chinese “patriots.” However, the evidence for nationalism as a “primary” motivator of state or citizen political action is spotty. In the case of Japan, the PRC has exercised extreme caution, largely to avoid harming vital trade relations; Chinese students flock to Japanese universities and still admire, and purchase in large quantities, Japanese products. Japan remains a critical source for high-end technology imports and is an essential export market. In the case of the United States, Chinese students at all levels enroll in universities and colleges in large numbers (over 194,000 in 2011-12) because they appreciate academic freedom, critical-minded pedagogy, and generous resources. Even when we examine seemingly “real” activism against Japan or the United States, disparate government agencies often are behind the scenes, providing buses and even doling out payments. The same goes for “patriotic bloggers” (paid a couple of cents per word) and semi-academic conferences.¹⁰ When protests do happen, and this is not often, they are designed to make a point, and crowds are quickly dispersed if they raise tangential issues. Perhaps even more important are “nonevents”—things that one would expect to happen, but do not. For example, in China there is no official commemoration of its “victory” against Vietnam in 1979, and veterans of that war, already treated shabbily, are arrested for gathering to commemorate their fallen comrades. The government would rather not remind the Chinese people or other Southeast Asian countries about the war. So, for the most part, Chinese policymaking, for all the emotion it can exude rhetorically, has been closely aligned with “realism,” not ideological zeal.¹¹

Resources.

China’s acquisition of natural resources also makes for dramatic headlines. In the popular

template, this is the logical result of its quest for world power status. The fear is that in a world of scarce resources, more for China means less for us or, alternatively, China will bully its neighbors to secure its energy needs. In either case, the United States has reason for concern. Seen through a different lens, however, China's search for resources has more than a whiff of desperation to it. First, this search has made China depend highly on foreign suppliers and international good will. Unable to deploy its navy far from its shores, China is vulnerable to stronger regional naval powers, and as well to politicians in the countries it buys from and loans to. As a net importer of crucial resources (including pork and other staple foods) and the number one energy importer in the world, China has to be quite cautious when it throws its weight around. But the more critical point is the simpler one. The Communist Party's legitimacy was battered by the Great Leap Forward (1958), the Cultural Revolution (1966-76), and the Tiananmen Massacre (1989). Its official ideology has collapsed. Political legitimacy is largely based on delivering a better material existence to millions more people than they do today. With the world's largest population, this is a tall order. It can be fulfilled only by industrialization and urbanization, both of which require tremendous energy inputs (think of air conditioning high-rise buildings). Therefore, the survival of the Communist Party as China's ruling party is inextricably bound together with the world energy market. Since staying in power is still the most important thing in politics, I expect that Chinese leaders will avoid disrupting international peace because it is their interest to do so. Many Chinese are angry and anxious these days—at corruption, pollution, nepotism, unsafe food, and high unemployment among college graduates.¹² The last thing state leaders want is to give people yet another reason to take to the streets. China already spends more on domestic "stability maintenance" than national defense (since 2010, roughly \$111 billion).

For hundreds of millions of people around the globe, impressions of China were formed by the events in Tiananmen Square in 1989, its economic prominence, and the 2008 Beijing Olympics. All were ample demonstrations of state power (in the latter case, this was the idea). However, from both a comparative perspective as well as one that looks "inside" the black box of its political system, society, and economy, China is less impressive; a "partial" power in David Shambaugh's analysis. China is difficult to govern and plagued by problems that would flummox even the most skilled administrator. It is still far behind the United States in terms of the overall "economic infrastructure" of state power.¹³ Of course, China will do its best at "impression management"—this has long been the forte of the Communist Party—but we would be wise to avoid drawing conclusions about Chinese intentions or capacity from saber rattling or vague threats made by relatively low-level civilian and military officials. But if this happens, as with many things political, I would say, follow: (1) the money; who is profiting?; and, (2) the longer term trend—in this case,

the disinclination of industrial and wealthy countries to wage war because peace has too many beneficiaries.¹⁴

Endnotes

1. See "China's Economic Empire," *New York Times*, June 1, 2013. Both authors are journalists based in Beijing, not professional China scholars. The article appeared in the "Week in Review" section, which has a wider readership than the weekday paper.

2. This racism was quite evident in World War II propaganda on both sides. See John Dower, *War without Mercy: Race and Power in the Pacific War*, New York: Pantheon, 1987.

3. In the current leadership, Xi Jinping, the party general secretary, represents the "Princelings," and the Prime Minister, Li Keqiang, the "CYL faction."

4. China Gini coefficient is currently 0.47 [0 represents perfect equality and 1 perfect inequality]. Anything above a 0.4 is considered worrisome.

5. See *Factions and Finance in China: Elite Conflict and Inflation*, Cambridge, UK: Cambridge University Press, 2007.

6. See Azar Gat, *War in Human Civilization*, Oxford, UK: Oxford University Press, 2006, pp. 487, 490-492.

7. The Smithfield Farm sale to Shuanghui International (pending a review by the U.S. Government) is interesting here. The company was originally owned by a city government. In 2006, the municipality sold its shares to Goldman Sachs and CDH Investments, a private equity firm. Shares are also owned by Singapore's Sovereign Wealth Fund and Horizon Capital, a private equity firm founded by the son of China's former Prime Minister, Wen Jiabao. While the headlines screamed that a veritable American company (founded in the 1930s) was sold to a "Chinese" firm, in fact Shuanghui was already highly globalized. Equally significant, Smithfield was purchased because Chinese consumers are afraid of eating locally produced meat. In other words, there is greater trust in American-made products than Chinese, "nationalism" notwithstanding. See David Barboza, "Chinese Bid for U.S. Pork Had Links to Wall Street," *New York Times*, June 2, 2013.

8. On the question of SOE size and assets, see the useful blog post by Gao Xu, formally of the World Bank, available

from blogs.worldbank.org/eastasiapacific/state-owned-enterprises-in-china-how-big-are-they.

9. Gat, pp. 485-486.

10. A recent *New York Times* article by Jane Perlez, "Calls Grow in China to Press Claim for Okinawa," June 13, 2013, seems alarming until one reads deeper into the article. The "calls" refer to one meeting of retired PLA officers and state researchers "in a spartan schoolroom," hardly the place for a high-level affair, two op-eds in *People's Daily*, one article in a magazine "affiliated" with the Foreign Ministry (which is very weak in Chinese politics) and two in *Global Times*, which is well-known for pushing aggressive views. This is hardly a broad movement, and it is still unclear to whom this can be traced. Such views were repudiated by a deputy chief of staff and a faculty member of Peking University who noted that "questioning the ownership of Okinawa was useful for projecting China as a regional power" and not much more.

11. For a recent (and sober) exposition on this point by a senior China scholar, see David Shambaugh, *China Goes Global: The Partial Power*, Oxford, UK: Oxford University Press, 2013.

12. As noted by Shang-Jin Wei, a Columbia Business School economist, "The only thing that worries them [the government] more than an unemployed low-skilled person is an unemployed educated person." The job prospects of roughly seven million college graduates are "bleak" because China's economy is still based largely on manufacturing. See Keith Brasher and Sue-Lin Wong, "Faltering Economy of China Dims Job Prospects for Graduates," *The New York Times*, June 16, 2013.

13. As noted by Gat:

even assuming that China's superior growth rate persists for a long while, her surpassing of the USA in terms of total GDP [gross domestic product], were it to be achieved by the 2020s, as variously forecast, would still leave her with just over a third of the per capital wealth of the USA, and hence, with considerably smaller infrastructural power,

roughly half to three-quarters that of the USA. He warns that "widely quoted estimates of China's future economic and military power, based on total GDP alone, are misleading, which might adversely affect policy decisions." See *War in Human Civilization*, pp. 523-524. Like me, Gat is dubious that China can manage a smooth economic-political transformation.

14. On this point see Gat, pp. 591, 597.

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